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20 November 1980

## MEMORANDUM

SUBJECT: West European Aid to Poland - Political Considerations [redacted]

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Summary

The West Europeans have been cautious in responding to Polish requests for aid because of the inherent problems in coming up with the necessary financing and the need to avoid provoking Moscow. Preliminary indications are that the West Europeans want close cooperation among the creditors and with the United States, while avoiding the appearance of multilateral rescheduling. United States participation in assistance to Poland is seen as necessary, especially when the large sums that will be needed to have real economic impact will have to be raised. The West Europeans are disposed to sympathize with the Polish requests, but economic stringencies and other priorities may make a full-scale effort difficult. In any case, the West Europeans will be favorably influenced if the workers and regime in Poland continue to negotiate rather than resort to confrontation. [redacted]

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Representatives of the US, France, West Germany, Italy, the UK, and Austria--meeting in Paris on 18 November at France's invitation--agreed that some form of "interim measures" must be quickly adopted, on a coordinated basis, if a Polish default early in

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1981 is to be avoided. The representatives further agreed that debt rescheduling, involving cooperative measures, will be necessary next year. Representatives of the six countries will meet again on 11 December to exchange information and discuss possible courses of action. Five additional countries--Canada, Japan, Switzerland, Sweden, and Belgium--will be included on 12 December. [redacted]

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West European leaders and officials feel a political need to aid Poland financially. Assistance to Poland is not argued on the basis of illusions that it will foster economic reform or prevent forceful repression of the workers' movement. Rather, aid would buy time, and time could be an important factor in permitting the regime and workers to work out compromises acceptable to the Polish Communists and the Soviet Union. Without assistance, the West Europeans believe Poland's economic situation could degenerate into chaos, leading to widespread unrest and possibly armed intervention either by Polish or Soviet forces. Many West Europeans believe this will happen anyway, but they hope there is a chance that postponing such a denouement might also prevent it. [redacted]

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There may be West Europeans who would see a Soviet intervention as a demonstration that detente always was an illusion. Some West Europeans are also convinced that detente policies have encouraged the Polish workers to covet both consumer goods and political liberalization and are thus in part responsible for the tensions in Poland today. On the other hand, if the situation could be "stabilized" at a level marking significant progress toward a more open Polish society, it would be a major vindication of the West European advocacy of detente. [redacted]

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Poland is in fact more than a symbol of detente for the West Europeans. It is the largest, most populous, and for Moscow, the most strategically important part of its East European empire. The West Europeans are also aware that Poland is probably the most anti-Russian of the Soviet satellites. If this makes Western dealings with Poland risky from the perspective of "provoking" Moscow, it also underlines the importance of encouraging the Poles to believe they have friends in Western Europe. [redacted]

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Those West Europeans who think far enough ahead--presumably, most governments--would probably conclude (indeed, may already have concluded) that Western Europe would have little choice even after a Soviet intervention

but to try to rebuild a "detente without illusions." But in the meantime there would be the risk that West European governments would come under considerable domestic criticism for "inadequate" responses to Polish and/or Soviet repression. Moreover, the West Europeans are concerned lest a breakdown of detente lead to new strains between themselves and the United States. Thus, there will be governmental support on foreign policy grounds for further financial assistance in the hope that this will help Poland to avoid the likelihood of Soviet intervention. [redacted]

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Unfortunately, awareness of such a role for financial aid is not sufficient to produce it in the amounts the Poles consider adequate. The coincidence of the Polish crisis with economic recession in the West makes it more difficult for the West Europeans to find the money and bend the rules to provide new assistance. They are also skeptical that Warsaw would use the money well. The Poles' indebtedness is testimony to the West Europeans' past willingness to make economically questionable loans. But the need for financial stringency in Western Europe today competes strongly with the political considerations. [redacted]

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Moreover, whatever the economic trade-offs--in terms of welfare, defense, and other foreign commitments--each country will have to weigh in deciding to aid Poland, there also are political factors that will argue for a cautious approach to Polish requests. The West Europeans want more financial and economic data, but they doubt they can impose economic performance, let alone political, conditions for further financial assistance. They may also feel that, if aid can be said to buy time for compromise, it could also embolden the workers and thus enhance the risk of crisis. How important this concern will loom for the West Europeans will depend on their reading of the relative strengths of moderates and "radicals" within the workers' movement. The West Europeans probably interpret the resolution of the Solidarity charter issue as holding out the promise that the workers will moderate their economic demands in return for political concessions. [redacted]

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Uncertainty about what Moscow will tolerate in terms of Western aid to Poland is also a matter of concern. The West Europeans believe that the Soviets would be provoked more by signs of Western agreement on conditions for aid than by sizable credits themselves. On balance, the West Europeans seem to believe that Moscow--given the relative paucity of its efforts--probably expects the West to bail out the Poles. The West European governments are nevertheless aware that their assistance--especially if unconditional--could subject them to domestic criticism over "complicity" not only with the Polish regime but with the Soviet Union. [redacted]

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The West Europeans--especially the West Germans--want the United States to play a major role in responding to Polish aid requests. In addition to reducing the financial burden, the Europeans will welcome American willingness to aid Poland as a token of continued US interest in detente. American reluctance to assume a heavy portion of the burden would be taken as a sign that Washington might be willing to risk a collapse in Poland. Western Europe also wants to prevent Moscow from fastening on the possible benefits to Polish-West European relations of Western assistance. Sizable US participation would serve to deflect those West European critics of "complicity" from focusing only on West European governments. [redacted]

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#### West Germany

Chancellor Schmidt wants to help Poland financially, but political support for such assistance may be somewhat weaker now in the wake of doubts about the prospects for Ostpolitik. Schmidt had approved and encouraged aid to Poland from the time he met Polish leader Gierek at Helsinki in 1975. In 1976, the West German Chancellor gained parliamentary approval of a sizable payment to Warsaw in settlement of war claims. At the time, hopes for reconciliation were high, and Poland had promised to allow the emigration of ethnic Germans. This summer Bonn was instrumental in helping to arrange a \$650 million loan to Poland by West German banks that was signed shortly after Gierek's fall. [redacted]

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Further aid now--either new credits or easing of terms on past debt--would have to be justified less by the hope of new achievements in Ostpolitik than as helping to salvage it, and perhaps also to forestall Soviet intervention. Important commercial and banking interests in West Germany with a substantial stake in Poland are presumably urging Bonn to approve new assistance. There is still a perceived political need to display sympathy for the Warsaw regime--if perhaps less than under Gierek. [redacted]

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Opposition has nonetheless been growing to Schmidt's use of government-backed guarantees to advance Ostpolitik. Even at the time of Schmidt's earlier efforts, influential conservatives argued that Eastern Europe should be left to stew in its own juice. Such views may be more common now. Not only is the economic soundness of credits to Poland more questionable, but the rapid souring of relations with East Germany has caused fresh doubts about the realism of expecting a political return for economic concessions. Opposition leader Strauss was critical of the recent bank loan to Poland, holding that it should be withheld pending assurances that Polish workers would benefit. [redacted]

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The budgetary bind in West Germany, along with reviving concern about becoming the "milk cow of Europe," is a constraint on meeting the Polish requests. Other foreign outlays, including loans for Turkey and Yugoslavia, could be better defended in parliament than further investments where Ostpolitik prospects appear dubious. [redacted]

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At a minimum the West Germans will want to provide further financing in smaller, if perhaps more frequent, bundles and get a response from Warsaw about how the Poles plan to repay loans, particularly those falling due in the next two years. Bonn will also want to see a large US contribution--both to quiet conservative forces in West Germany and to dodge Soviet suspicions of too large a German role. [redacted]

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### France

Paris' assessments of what lies ahead for Warsaw have vacillated between deep gloom and cautious optimism. Immediately after Gierek's fall, Paris was reluctant to discuss economic aid with the Poles, preferring instead to wait. Giscard, for whom Gierek was a particularly valued interlocutor, postponed a scheduled September trip to Poland indefinitely, and the Poles were advised that French Treasury aides would be unavailable until mid-October. These responses were triggered by uncertainty over Kania's leadership and persistent rumors of impending Soviet military action. [redacted]

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The French have been sympathetic to Poland's economic needs. French officials have feared that deteriorating economic conditions might cause the delicate balance between workers, regime, and Moscow to fall apart. At the same time the French emphasize that the West must be discreet in consulting on aid to Poland and that, because of Soviet sensitivities, how aid is provided may be as important as the amount. [redacted]

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Giscard apparently believes that Warsaw's new leaders are the best hope for Poland and for detente in Europe. He hopes that economic aid from the West will enable the Poles to maintain at least a modicum of independence from the Soviets and create conditions permitting the fragile concessions won by the workers to remain alive. It will be some time before Franco-Polish relations achieve the level of cordiality established under Gierek's regime, but Giscard has [redacted]

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[redacted] expressed a desire to visit Poland this month. His decision on whether to take the trip will turn upon the way events unfold in Poland. With the French presidential elections next spring drawing closer, Giscard is wary of being identified with a regime that may yet use force against its population. [redacted]

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### Italy

Italian interest in the peaceful resolution of the Polish crisis is broadly based, and the connection between economic assistance and disorder is perceived. Italy's uncertain economic situation will limit the amount of aid it can provide. Italy has strong historical ties with Poland; many Italians view the Poles as the most "culturally Westernized" of the East Europeans. The key role of the church in Polish life has been an important source of fellowship with Italians--a feeling that has grown since the election of Pope John Paul II. Italian trade with

Warsaw is second only to that of West Germany in Western Europe. Like other West Europeans, the Italians still hope that gradual liberalization in Poland might influence favorably other Warsaw Pact countries and perhaps ultimately the Soviet Union itself. [redacted]

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Italy is under no illusions that Western economic aid can correct structural imbalances in the ailing Polish economy. But Rome views such aid as a way of lessening internal Polish tension. Consequently, the Italians were one of the first to call for increased assistance to Poland. There appears to be a broad national consensus in favor of this approach--particularly in view of the rapprochement that apparently is developing between the Forlani government and its principal opposition, the Communists. Although they are ready to censure Moscow and possibly break their ties to the CPSU in the event of Soviet intervention, the Communists would prefer to avoid the embarrassment that such Soviet action would entail. [redacted]

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Despite domestic political backing for aid to Poland, Italy--which is still without a comprehensive strategic plan for its own economy, probably would prefer to reschedule the repayment of credits already extended than offer new ones. Rome will be forced to juggle its limited finances to accommodate the Poles. [redacted]

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#### UK

London has been wary about extending further assistance to Poland, but appeared to soften its position during Lord Carrington's recent visit to Warsaw. The Foreign Secretary told Polish leaders that Britain would look sympathetically on aid requests, but there are major economic and political limits to additional assistance. With the British economy deep in recession, the Thatcher government sees no alternative to severe fiscal restraint. Any additional government-backed loans to the Warsaw regime at a time when social programs in the UK are being cut could prove embarrassing to the Tory government. Similarly, Warsaw's request to ease quotas for Polish goods in a period of rising protectionist sentiment could also be hard to manage. [redacted]

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Despite such misgivings, London is apparently prepared to allow the Poles some breathing space on the financial front. While not in a position to grant extensive new credits, the British see some form of debt relief as a realistic possibility. The final scope of British aid to Poland will probably reflect a compromise between the Foreign and Commonwealth Office--which emphasizes the potential political benefits of financial assistance--and the Treasury, concerned about limiting overseas loan liabilities and government expenditures. [redacted]

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The British will expect the United States and West Germany to take a leading role in providing loans to Poland. Although the British have expressed support for informal consultations between the major debt-holders on steps to assist Warsaw, London fears that a meeting of Western creditors with the Poles could allow the Soviets to charge that the West is attempting to "split Poland from the socialist camp." London will thus insist that any loan strategy be handled very carefully in order to avoid providing a convenient excuse for Soviet action. [redacted]

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Attachment: Table

~~SECRET~~**POLISH REQUESTS FOR FINANCIAL ASSISTANCE**

Warsaw's search for massive financial aid includes rescheduling debt repayments—and in some cases interest—due in the 1981-83 period until 1985 to 1990, and substantial new credit lines to finance imports of food, raw materials, and semimanufactures. We estimate that the amounts to be rescheduled total \$5 billion and that the new credits come to \$5 billion-\$5.5 billion. Requests to major creditors are:

Creditor	Reschedule Request	New Credit Request
US	Easing of terms on past CCC, Eximbank, PL-480 credits—about \$700 million due in 1981.	\$3 billion financial credit, repayment 1985-90; \$100 million-\$200 million CCC; Eximbank credit line for raw materials.
West Germany	Five-year deferment of repayments due to begin this month on \$530 million loan.	\$290 million credit for chemical, steel, and other products, \$630 million long-term, untied financial credit; both officially guaranteed. \$105 million increase in a \$255 million credit line for food purchases. Already approved: \$26 million remainder of raw material credit line, to be used for food.
France	All debt service due in 1981-83 rescheduled to 1985-90; \$425 million-\$475 million due in 1981.	\$300 million-\$500 million for new coal project; \$250 million-\$375 million in five-year raw material credits.
Italy	\$1 billion in repayments and interest due in 1981-83, rescheduled to 1985-90.	
UK	"Some" of the \$500 million owed in 1981-82.	Five-year credit (perhaps \$200 million) for raw materials.
Austria	Request made—amount and other details unknown, but Austria's exposure is roughly as large as France's.	Request for \$40 million for grain approved. In September agreement to make a \$300 million advanced payment for Polish coal—actually a 10-year credit with a five-year grace period.
Canada	Informal approach to defer payments on \$170 million project loan and \$380 million Wheat Board credit.	Long-term raw materials credit line.

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